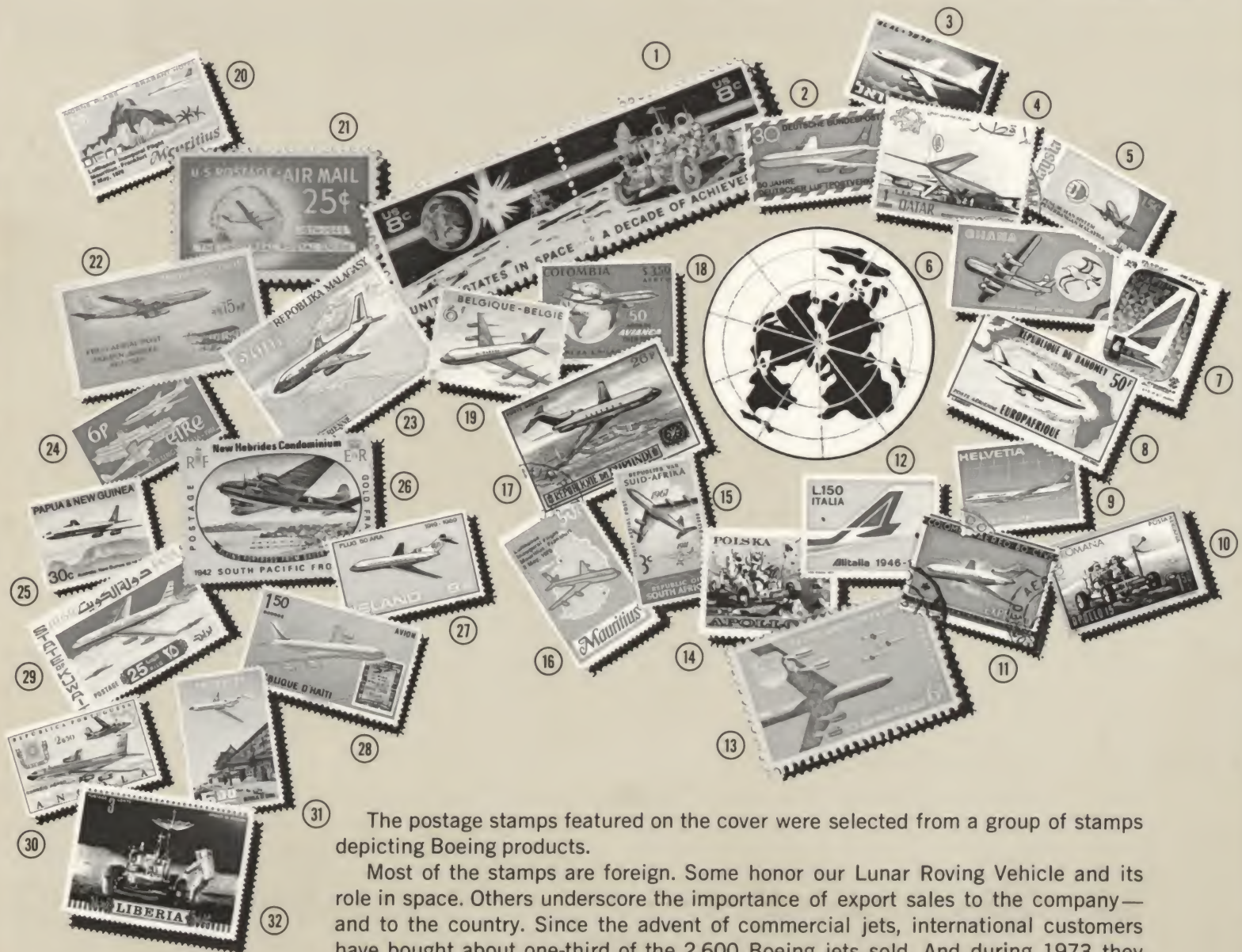


[illegible]**BOEING**

STAMPS OF APPROVAL

1. UNITED STATES	Lunar Rover
2. GERMAN FEDERAL REPUBLIC	707
3. ISRAEL	707
4. QATAR	707
5. MALAYSIA	737
6. GHANA	Stratocruiser
7. ETHIOPIA	707
8. DAHOMEY	747
9. SWITZERLAND	747
10. ROMANIA	Lunar Rover
11. COLOMBIA	727
12. ITALY	747
13. UNITED STATES	B-52
14. POLAND	Lunar Rover
15. REPUBLIC OF SOUTH AFRICA	707

16. MAURITIUS	707
17. BURUNDI	727
18. COLOMBIA	720B
19. BELGIUM	707
20. MAURITIUS	707
21. UNITED STATES	Stratocruiser
22. INDIA	707
23. MALAGASY REPUBLIC	737
24. IRELAND	707
25. PAPUA AND NEW GUINEA	707
26. NEW HEBRIDES CONDOMINIUM	B-17 Flying Fortress
27. ICELAND	727
28. HAITI	707
29. KUWAIT	707
30. ANGOLA	707
31. REPUBLIC OF CHINA	727
32. LIBERIA	Lunar Rover



The postage stamps featured on the cover were selected from a group of stamps depicting Boeing products.

Most of the stamps are foreign. Some honor our Lunar Roving Vehicle and its role in space. Others underscore the importance of export sales to the company—and to the country. Since the advent of commercial jets, international customers have bought about one-third of the 2,600 Boeing jets sold. And during 1973 they placed about 64 per cent of the jet orders we received.

Plus featuring our products on stamps.



CONTENTS

- 2 HIGHLIGHTS
- 3 MESSAGE TO STOCKHOLDERS
- 6 BOEING COMMERCIAL AIRPLANE COMPANY
- 11 BOEING AEROSPACE COMPANY
- 15 WICHITA DIVISION
- 17 BOEING VERTOL COMPANY
- 18 BOEING COMPUTER SERVICES, INC.
- 19 FINANCIAL REVIEW
- 22 TEN-YEAR COMPARATIVE FINANCIAL DATA
- 24 FINANCIAL STATEMENTS
- 30 ACCOUNTANTS' REPORT
- 31 ORGANIZATION AND MANAGEMENT

■ Above: New Presidential 707, 5th Boeing jet delivered to the Special Air Mission's Wing at Andrews Air Force Base near Washington, D.C., went into service in 1973.

Annual meeting of Boeing stockholders will be held at the offices of the Company, Seattle, Washington on May 6, 1974. Formal notice of the meeting, proxy statement and form of proxy will be sent to stockholders about April 1.



■ Silhouetted against slanting sun, Singapore Airlines 747B begins Orient-bound flight.

HIGHLIGHTS

	<u>1973</u>	<u>1972</u>
Sales	\$3,335,189,000	\$2,369,580,000
Net earnings	\$ 51,215,000	\$ 30,405,000
Per average share outstanding	\$2.38	\$1.40
Percent of sales	1.5%	1.3%
Stockholders' equity	\$ 900,122,000	\$ 864,819,000
Shares outstanding at year end	21,296,488	21,688,888
Stockholders' equity per share	\$42.27	\$39.87
Cash dividends paid	\$ 8,622,000	\$ 8,674,000
Per share	\$.40	\$.40
Salaries and wages	\$ 955,539,000	\$ 783,531,000
Average number of employees	68,200	58,600
Additions to plant, net	\$ 33,074,000	\$ 9,380,000
Depreciation of plant	\$ 65,994,000	\$ 75,920,000
Funded backlog at year end	\$3,152,243,000	\$2,830,854,000

MESSAGE TO STOCKHOLDERS

As is evident in the adjacent "highlights," our sales and earnings increased significantly in 1973 from the previous year. Also our backlog of orders for commercial airplanes continued the upward trend which had begun the year before. Military and other government business also reflected this trend. We were able to reduce total debt by \$474 million with bank debt at year end aggregating just under \$100 million. Total debt at the end of 1973 was \$278 million as compared with \$752 million at year end 1972.

Because of our improving performance, the quarterly dividend has been increased to 15 cents per share, payable during the first quarter of 1974.

It is clear that we have achieved additional momentum both in broadening our business base and in increasing the overall efficiency of our operations. If market conditions respond normally, the prospects are for this momentum to continue in 1974. The major unknown is the market consequences of the energy crisis.

Our military customers are less affected by this situation than the airlines, and it should be noted that the impact is not evenly or universally felt among the airlines we serve. A number of our foreign customers are not experiencing fuel shortages, and others enjoy relatively high fuel priorities either because of their "flag carrier" status or because fuel for transportation is considered more essential than for other uses. In 1973 almost two-thirds of our commercial airplane orders were from foreign airlines, and the outlook is that the percentage will grow in 1974. We anticipate some order slowdown in the domestic market, reflecting principally airline schedule cutbacks resulting from the fuel shortage.

Present conditions have created many uncertainties, leading customers to be more hesitant in making firm decisions and commitments. However, our 1974 production schedules which are substantially based on firm orders are at or above 1973 levels. Our commercial jet transport line is the most complete of any manufacturer and we are confident that there will be a continuing reasonable demand for our products, notwithstanding the energy situation.

There is a continuing requirement for airlines to replace older equipment with the more efficient



■ T. A. Wilson
Chairman of the Board
Chief Executive Officer

■ M. T. Stamper
President



models now in production, and we believe that our customers will feel it more prudent over the next year or two to purchase those models than to enter into commitments for entirely new types of airplanes. Thus over the near term we intend to concentrate on improving and tailoring our existing product line to satisfy customer needs and to defer the introduction of new-generation airplanes until world and domestic market demands appear to justify the attendant costs and risks.

Our product line extends from the short-range 737 to the long-range high-capacity 747. The decision to proceed with the 747SP, a longer range, reduced body length version of the standard 747, added still another model. It will fill an airline need without requiring either the airlines or the company to make commitments on the scale associated with a new airplane type. We continue to average production and tooling costs for the 747 program—including the 747SP—over what we continue to believe to be a conservative market projection of 400 airplanes. As of year end, orders for 258 had been announced, of which 225 had been delivered.

Despite downward adjustments in national military appropriations, the company succeeded in increasing the level of its military business. As a result, it improved its ranking as a Department of Defense contractor, advancing from 5th to 3rd as measured in terms of the dollar value of Fiscal Year 1973 contracts. Because its military programs are generally viable and the company's performance continues to satisfy its customer, military business in 1974 is expected to maintain itself at or near the 1973 level.

Boeing's sales are very dependent on competitiveness. Our management response to the severe conditions encountered in 1969 and 1970 made us a more efficient company and thereby substantially more competitive. We are placing major emphasis on maintaining that efficiency. The requirement for both design and cost competitiveness is particularly important in fly-off competitions such as we face in the short-takeoff-and-landing military transport airplane and in the UTTAS 14-place assault helicopter.

Boeing has won key assignments to design and supply avionics for the B-1 bomber, to provide airborne warning and control aircraft (AWACS), to develop a prototype heavy-lift helicopter and to demonstrate the suitability for development of an air launch cruise missile derived from the former SCAD program. These programs offer long-range sales potential.

In the military field, recent crises have demonstrated an increasing need for airlift. The military derivatives of our commercial aircraft lend themselves to that assignment as well as to a variety of other military uses, ranging from surveillance and

long-range patrol to tanker and command-and-control assignments.

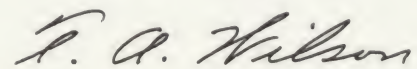
We have not been successful in obtaining new major assignments in the space program in 1973, and we see little opportunity for substantial new business in that area in 1974. However, based on past performance of company people and products in the nation's space program, when new opportunities do open in this area we would expect to compete.

While the majority of Boeing business remains firmly rooted in the transportation field, we have broadened company operations to encompass an increasingly diversified product line. Thus, while fully supporting our traditional product areas in the transportation field, we are also now developing equipment for ground and water transportation systems such as hydrofoil boats, streetcars, rapid rail, and personal rapid transit systems.

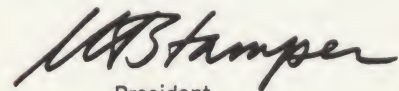
Our high degree of competence in electronics acquired in our traditional business has won us major assignments like the AWACS and B-1 avionics programs. In addition, a Boeing-led team has been selected to develop the advanced communications and electronics system for the 747 Command Post fleet.

We are performing services for both commercial and government customers in which we use skills derived from our deep involvement in all aspects of transportation. These range from airport planning and procurement support for commercial airlines operations to maintenance and support for military bases in foreign nations.

In summary, whereas the company is not without its share of problems, the opportunities and the basic elements for success in a normal business environment are increasingly in evidence: well developed markets; highly competitive and respected products; an experienced and skilled workforce; well equipped and modern facilities, and a sound and improving financial base.



Chairman of the Board
Chief Executive Officer



President

February 25, 1974



■ Decorated with the emblems of 54 customer airlines, the 1000th 727 is poised for rollout from the Renton factory. The ceremony took place almost 11 years to the day after the first 727 rollout. No other commercial airplane has achieved such sales volume.



■ E. H. Boullioun
President
Boeing Commercial Airplane Company



■ Reflecting customer requirements, production rates of both the 727 and 737 were increased during the year.

BOEING COMMERCIAL AIRPLANE COMPANY

An outstanding sales year for all products, and the decision to begin the 747SP (Special Performance) jetliner program were the major developments in 1973 for the Boeing Commercial Airplane Company.

New orders for 174 aircraft were announced during the year, compared with 170 in 1972. Although those numbers are nearly equal, new business dollar volume rose substantially in 1973 to more than \$2 billion, primarily as a result of increased 747 orders. The 1973 orders represented 57 per cent of all new free-world commercial jet transports sold and 58 per cent of all free-world dollars committed to such airplanes for the year—well above historical percentages. International customers accounted for 64 per cent of the new orders, compared with an almost even division between U.S. and foreign orders in 1972.

New orders by model were as follows: 35 Model 747s, 11 Model 707s, 42 Model 737s and 86 Model 727s.

Orders for the 747 — not counting commitments for the 747SP — increased over 1972. Two major airlines announced purchases of four 747F freighters, reflecting continued growth of world air freight traffic. Seaboard World Airlines, an all-cargo carrier and a new Boeing 747 customer, ordered three 747Fs, the first of which will be delivered in August. In addition to the swing-up nose that is standard on 747

freighters, the Seaboard 747s will feature a large side cargo door, a new program development announced last year. Later in 1973, Air France ordered one 747F.

Olympic Airways of Greece was added to the list of 747 customers during the year, taking delivery of two superjets for its North Atlantic service. Other airlines introducing 747 service in 1973 were CP Air and Wardair (both Canadian airlines), Singapore Airlines and World Airways.

Three new derivatives of the 747 were delivered and entered service during the year. World Airways received the first two of its three-airplane 747C (Convertible) fleet in April; Japan Air Lines began Japanese domestic service with its first 747SR (Short Range) in October, and the U.S. Air Force took delivery in July of the first 747 designed for use as an airborne command post.

On February 25, 1974, the worldwide fleet of 747s had carried nearly 60 million passengers since entering service in early 1970.

One of the continuing major factors in our sales is the full "jetliner family" we offer the world's airlines. Addition of the 747SP will provide yet another airplane to fit specific market requirements. The 747SP brings to seven the basic derivatives of this model. Product development efforts on the 747 have re-



■ Activity on Boeing Field flightline increased as more jets were built to meet customer needs; here an AWACS 707, a 747 and several 727s are readied for customers.

sulted, in effect, in an entirely new family of wide-body jetliners which will enhance the long-range stability and success of the program.

The "SP" already has been ordered by Pan American and Iran Air, and a strong continuing market is anticipated. Several major airlines have expressed interest in the aircraft, which, because of its reduced size (47 feet shorter than the basic 747), will permit operators to offer its services over a broader spectrum of their routes. The 747SP provides the airlines with an alternative to the intercontinental version of competitive equipment. It offers lower seat-mile costs, longer range (New York to Tokyo nonstop), higher cruising altitudes, superior takeoff and landing performance, lower noise, better fuel economy and four-engine reliability on long-range flights.

These features are particularly important to airlines which have yet to make a wide-body equipment decision. Also, the high degree of commonality between the 747SP and the basic 747 makes this new derivative attractive to the 36 airlines which have already purchased 747s.

Progress on the 747SP program since the go-ahead in September has been excellent. An interior mockup has been completed, a full-scale engineer-

ing mockup is nearing completion, engineering drawings are being released to manufacturing organizations, and several major 747SP subcontracts have been awarded. The first 747SP is scheduled for rollout in the spring of 1975, followed by first flight in mid-1975. A six-month flight test program will precede first delivery to Pan American.

New orders for the 707, which continued to attract new customers, totaled eleven for the year. Especially noteworthy was the purchase of three 707 intercontinentals by TAROM, the national flag carrier of Romania. Other new customers included Sudan Airways, which ordered two 707s, and Iraqi Airways, whose order for five Boeing jets included three 707s. One 707 was ordered by EgyptAir, and two were purchased by the U.S. Air Force for the AWACS program.

By year's end, five 707s—half of those ordered by the People's Republic of China—had been delivered. A customer support field service office has been opened in Peking; it is the newest of more than 60 such offices Boeing maintains around the world to support its customer airlines.

The 737 program enjoyed a substantial increase in new business. Orders received in 1973 were triple those of 1972. Much of this is attributable to airline



■ This view of the interior mockup demonstrates that the 747SP—for Special Performance—maintains the same standards of decor and passenger appeal set by the 747.



■ Scale models give visual comparison between standard 747 (lower) and new 747SP. Orders for the Special Performance 747 have been announced by two airlines.

fleet modernization and replacement, as well as to the selection of the airplane by airlines making their first purchase of jet equipment.

In one of the year's most publicized purchases, Sabena Belgian World Airways announced purchase of ten 737s to replace older aircraft. Significance of the announcement was the selection of the 737 in the face of continually increasing competitive pressures of European products.

The 727 continued to sell well in 1973. The year's largest single order for Boeing jets—by Trans World Airlines—was for 17 Model 727s. Nearly all the major U.S. carriers have upgraded their fleets with 727 purchases during the past two years. Also noteworthy was the purchase of two 727s by JAT, the national airline of Yugoslavia, and four by THY, the national airline of Turkey. In addition to its order for the 747SP, Iran Air also placed an order for three 727s. A particularly significant new 727 customer is Air Canada whose order of five was announced in late December. Air Canada was the last North American trunk carrier without 727s and its potential total need is large.

By year's end a total of 1100 Model 727s had been ordered since the program's inception. Its ability to compete effectively against the three-engine, wide-body airbuses in frequency-oriented markets was an important factor in the year's performance. A steady requirement exists for the 727 as airlines continue to modernize their fleets by retiring older

equipment, and for markets where the wide-body capacity of the 747 is not needed.

Sales of the 727 illustrate the vital role played by continued emphasis on product development activity. Actions taken in recent years, which have considerably improved the aircraft's range and payload, have resulted in sales of more than 200 Advanced 727s the past two years. The airplane continues to be the best-selling model in the United States and throughout the world.

Additional preliminary engineering work has been accomplished which could lead to further product derivatives when market conditions and airline requirements warrant them. For example, strong consideration is being given to the development of an additionally stretched 727 (the 727-300). With a redesigned wing leading edge, the airplane would yield a significant improvement in fuel consumption over the existing model and would carry 24-36 additional passengers. The practice of offering new product versions allows quick reaction to market trends and competitive developments at relatively lower company investment and risk than an entirely new program entails.

The expenditure of substantial amounts of research money — \$20 million of company funds in 1973, augmented by more than \$10 million in government contract research — on noise reduction continues to show return on the sales front. With environmental concerns prevalent throughout the



■ First of ten 707s for the People's Republic of China is shown here during a test flight. It was delivered August 23, 1973.



■ The first two 747C convertible superjets, delivered to World Airways in 1973, were used for charter passenger flights as well as military and civil cargo operations.

world, the fact that our 727, 737 and 747 models meet or better U.S. and international noise regulations for new aircraft is important for continuing sales.

For the longer term, preliminary design activity continued on the 7X7 program, aimed at developing a new family of airplanes with short-, medium- and long-range versions. Work on the medium-range 7X7 is being done cooperatively with Aeritalia, our Italian joint-venture partner. Program timing depends on future market environment.

Also looking towards the future, a memorandum of understanding was signed in 1973 between Boeing and the Japanese Civil Transport Development Corporation calling for a one-year exploration of marketing, schedule and financial feasibility of a joint development and production program for a new commercial jet aircraft. The agreement recognized Boeing's 7X7 developmental efforts and the proposed Japanese YX jetliner program. The need and scope of any additional agreement will be decided during 1974.

Employment in the Commercial Airplane Company increased during the year, primarily to support higher production rates of the 727 and 737 programs. Production rate on the 727 program rose from 5½ airplanes per month in January to its current rate of 8½ in August. On the 737, production doubled from 2 to 4 airplanes per month and reached 5 per month early in 1974. Rates on the 707 and 747 programs remained level at 1½ and 2 airplanes per month,

respectively. It is anticipated that all of these rates will remain constant during 1974.

Boeing Aerosystems, a subsidiary of the company organized in 1972 to market various air transportation services worldwide, made steady business gains during the year. Aerosystems was awarded six contracts in the airport development field, and presently has 28 contracts in which it serves as U.S. purchasing agent primarily on behalf of foreign airlines for procurement of airplane-related spares and equipment.

The impact of fuel shortages has been discussed earlier. Within that context and against projections that airline traffic growth should average about 8 per cent per year during the next decade, our 1974 order prospects are as follows:

The 747 program has gained momentum in each of the past two years and should sustain at least the present rate of sales. The bulk of the orders should come from foreign customers. New orders, but on the same modest level as in recent years, can be expected of the 707 program. Sales prospects for both the 747 and the 707 in a variety of military uses remain good. Significant reorders and new customer purchases are foreseen for the 737, all of which should come from the international sector. While the 727 order outlook for 1974 is lower than in 1973, a considerable number of airlines, both foreign and domestic, look upon the 727 as the right aircraft to update their fleets and more suitable for intermediate routes than the newer three-engine wide-body jets.



BOEING AEROSPACE COMPANY

The activities of Boeing Aerospace Company may be grouped into three broad categories: military, space and — reflecting the company's drive to increase diversification — "non-traditional."

As noted in the Message to Stockholders, we improved the level of our military business in 1973, and we expect to do as well in 1974.

A shift in national priorities has tended to de-emphasize the nation's space program, and the prospect of immediate additional major business in that field cannot be viewed as bright.

The many and varied activities referred to as "non-traditional" are still small when compared with the company's military and commercial aircraft business. However, these activities loom larger each year and should continue to grow.

In general, it was a good year for Boeing Aerospace Company. Established programs remained strong and new business has been consolidated. It was a year in which the U.S. Air Force authorized the company to proceed with full scale development of its Airborne Warning and Control System (AWACS). During this phase, three prototype aircraft are being built for 1975 flights. The fiscal 1975 Federal budget contains a production funding request for 12 AWACS aircraft. By the end of 1973, more than 4,000 Boeing employees were working on the AWACS program, concentrating largely on engineering aspects.

The Short Range Attack Missile (SRAM) program continued to be a major element of the company's business. Boeing's on-time record—begun with the delivery of the first production missile to the U.S. Air Force in March, 1972—was maintained and production costs remained well below targets. By year's end, 700 of the 1,500 SRAMs authorized for production had been delivered and Boeing's work in preparing 18 Strategic Air Command bases for the air-to-ground missiles was about half complete.

The company also delivered to the Air Force the first 50-unit squadron of Minuteman III intercontinental ballistic missiles to be deployed at Warren Air Force Base, Cheyenne, Wyoming. Delivery was on time and within contract cost targets, continuing the

■ Delivery of the Air Force T-43A Airborne Navigator Trainer began in 1973. Nineteen of the aircraft, which are military versions of the 737-200, are on order. Deliveries will be completed in 1974.

■ Compass Cope: Boeing's entry in the remotely piloted vehicle competition is dramatically lighted by the desert sun at Edwards Air Force Base in California.



■ O. C. Boileau
President
Boeing Aerospace Company

record begun with deployment of the first Minuteman I squadron nearly 11 years ago.

In July the Air Force redirected the Subsonic Cruise Armed Decoy (SCAD) missile program. It has since been modified, with the company directed to begin preliminary work on an Air-Launched Cruise Missile (ALCM) to be carried by B-52s and by the supersonic B-1 bomber planned for the 1980s and 1990s. Full-scale development of the missile is scheduled to begin in September of this year.

The company is directly involved in the B-1 program as Avionics Subsystems Interface contractor. This work proceeded satisfactorily.

It also was a year in which the Air Force purchased four 747 superjets for use as Advanced Airborne Command Posts. The company, recognizing the urgency of the requirement, already had begun construction and was able to deliver two airplanes by fall.

Delivery of the first five T-43 Airborne Navigator Trainer aircraft also took place in 1973. The Air Force has purchased 19 of these 737 jet transport derivatives.

The configuration of the company's entry in the Air Force's advanced medium short-takeoff-and-landing transport competition — the YC-14 — has been frozen and detailed design is under way. Boeing is building two prototypes of this high-wing, two-engine aircraft. The airplane uses a design in which the



■ Two 747B aircraft were delivered to the U.S. Air Force during 1973 for Airborne Command Post duty.

thrust follows the wing contour. Referred to as "upper surface blowing," the technique provides added powered lift for shorter-than-normal runways.

Compass Cope, the company's first effort in the remotely piloted vehicle (RPV) market, made its maiden flight at Edwards Air Force Base last summer, accomplishing a large share of its flight test objectives. However, it crashed during final landing approach on the following flight. A second aircraft is expected to be completed and flying by the third quarter of 1974.

The company closed the year with the possibility of forging into a new military aircraft market — that of long-range maritime patrol aircraft. In early December, Canada announced that Boeing was one of two finalists in the program definition phase of that nation's long-range patrol aircraft (LRPA) project. The company expects to propose the replacement of Canada's Argus CL-28 patrol planes with specially equipped 707-320C jetliners.

In 1973 the company made two more contributions to the history of space exploration.

- First Jetfoil, advanced high-speed passenger-carrying hydrofoil, moves down the production line. The ship will be launched and extensively tested during 1974.
- Mariner 10 was the first spacecraft assembled in the new super-clean facility at the Boeing Space Center.
- A subsidiary, the Boeing Agri-Industrial Company, was formed recently to manage the company's agriculture-oriented activity at Boardman in northeastern Oregon.

■ This heavy steel cylinder is part of the equipment being used by the Air Force and Boeing to strengthen the silos which hold Minuteman missiles.



■ In 1973 AWACS test-bed aircraft demonstrated its ability to detect and track airborne targets at high and low altitudes over any terrain. Boeing is prime contractor for Air Force.

Mariner 10 ended the year on the 58th day of its 640-million-mile journey to Venus and Mercury. The space craft, designed and built at the Boeing Space Center, was delivered to the Jet Propulsion Laboratory for NASA (National Aeronautics and Space Administration) on a schedule and within a budget proposed by NASA in 1969. At year's end, the craft was performing well and was returning valuable scientific information gathered in its inter-planetary cruise.

Closer to home, the mighty Saturn V launch vehicle which carried Skylab's 197,000-pound workshop into earth orbit was lifted from the Kennedy Space Center by a company-built S-1C first stage. This last in a long series of S-1C launches boosted the Saturn V program to a perfect record of 13 successful launches in 13 attempts.

In more diversified fields, the company's Naval Systems Division received a contract to build two 231-ton missile-carrying hydrofoil ships for the U.S.

Navy. Launching of the first craft is expected in the fall of 1974. "Jetfoil" is the company's entry in the commercial passenger-carrying hydrofoil market. Although the program has encountered production problems in its initial phase, the first Jetfoil is scheduled for a spring 1974 launch and, after extensive testing and trials, other ships will head down the ways for passenger service in the fall in Hong Kong and Hawaiian waters.

And, on the land, the company has been working for the Department of Transportation to demonstrate the technical feasibility of its fully-automated personal rapid transit system at Morgantown, West Virginia. In September, the Urban Mass Transportation Administration authorized the company to begin conversion of the system to operational status. This will require installation of several subsystems and the construction of a fleet of 45 vehicles.

The Message to Stockholders noted that a number of Boeing's programs have heavy electronic con-



■ External load of twelve SRAM missiles along with eight more in the bomb bay adds new mission capability to B-52s. Vapor from aircraft is accented here by the sun's rays.

tent. While the bulk of our electronics effort is spent on these major programs, the electronics organization also figures prominently in our diversification activities. It has distributors in more than half the states to handle its diverse line of communications and law enforcement products which includes two-way radios, communications scramblers, a traffic radar, a night viewing device and the ORBIS III traffic monitoring system.

The low-cost microwave Landing Air System (LAS) passed a key milestone when Wien Air Alaska, LAS' first customer, received Federal Aviation Administration approval for the system.

The company's Field Operations and Support Division continued to expand its business base during the year. It was successful in winning a contract to furnish services to U.S. installations in Turkey. The increase in this type of activity resulted in the employment by year end of more than 3,000 foreign nationals in overseas operations of Boeing Aerospace.

Boeing Aerospace Company formed several sub-

sidaries: BOECON Corporation was organized to expand activities in the general construction business, primarily the environmental field; The Boeing Construction Equipment Company was formed to market the company's new line of portable asphalt plants, and the Boeing Agri-Industrial Company was created to encompass the rapidly-expanding farming-ranching-industrial complex on 100,000 acres of leased land at Boardman, in northeastern Oregon.

The company also has begun work in the energy field in such areas as electric system power controllers and nuclear technology services by applying technology developed in the Minuteman and other programs.

Resources Conservation Company, a joint venture between affiliates of El Paso Natural Gas Company, Reading & Bates Offshore Drilling Company and Boeing, has completed design of a 225,000-gallon-per-day waste water treatment plant. It has received orders for three such plants to be operational in 1974.

WICHITA DIVISION

In 1973 the Wichita Division increased its business volume for the second consecutive year with all programs on schedule and within cost targets.

Continued support of the B-52 bomber and KC-135 tanker fleets kept more than half of the 7,000-man work force busy. An Air Force recommendation to carry out a \$240 million program to extend the structural life of 80 B-52Ds received favorable Congressional action at year's end and initial funding was received in January. Other division activities included limited modification work on B-52s, and the production of hardware kits and spare parts. Work continued on various development and test programs.

Hardware deliveries included equipment which gives B-52s improved flight hazard avoidance capability on low-level missions and improved and additional penetration and survivability capability. Deliveries will extend through 1975.

During 1973 Wichita also moved into the third year of a KC-135 Programmed Depot Maintenance contract. Schedules call for 160 tankers to move through the modification lines by the end of the fiscal year. Two one-year options remain under the program.

Work in support of commercial jetliner production in Seattle increased during 1973. Nearly one-third of the work force was involved in fabricating and assembling airframe components for 707, 727, 737 and 747 aircraft. Wichita continued to support Boeing Vertol by producing assemblies for CH-47 helicopters.

The division's Aircraft Modification Branch completed the installation of wide-body interiors in 101 Eastern Air Lines 727s. Other airlines for which modifications were completed included Western, Northwest, Olympic, Britannia, British Caledonia, Transportes Aereos Portugueses and Donaldson.

Good progress was made in the development of Quiet Nacelle technology and preparations for future production of these nacelles for JT3D engines used on 707s. A Nacelle/Noise Abatement Branch was established in 1973 to support this effort.

In the non-traditional area, Wichita received a contract to install a FLAIR (Fleet Location and Information Reporting) system for the St. Louis Metropolitan Police Department. The FLAIR system includes a communications center and equipment for patrol cars which can provide instant location of the cars on a video map. With a capability for tracking up to 1,500 vehicles per unit, the system has possible application for other types of fleet operators.

The division's outlook for both short-term and long-term sales appears favorable.



■ Otis H. Smith
Vice President - General Manager
Wichita Division



■ Wichita modification work includes different models of KC-135 and B-52 aircraft for the U.S. Air Force.



■ Third year of maintenance contract with Air Force brings 160 KC-135 tankers to Aircraft Modification Branch for programmed depot maintenance.



- Heavy-lift Helicopter prototype is being built for U.S. Army; first flight in 1975.
- Mockup of front half of Standard Light Rail Vehicle. 230 of these modern-technology streetcars have been ordered.
- Standard Light Rail Vehicles accommodate 210 passengers, including standees.
- Shown here in mockup is the company's entry in the competition for the U.S. Army's Utility Tactical Transport Aircraft System (UTTAS). The fly-off will be held in 1976.



BOEING VERTOL COMPANY

1973 saw current programs on schedule and within cost targets, new product lines added, and orders and sales up over 1972. Despite two disappointments—loss of the Advanced Attack Helicopter and Tilt-Rotor Helicopter competitions—acquisitions in 1973 hold real promise for the future.

The CH-47C Chinook continued its worldwide dominance of the military medium-lift helicopter market. Foreign orders for the model numbered 16 during 1973, and the U.S. Army ordered 24. The Spanish Army took delivery of two, and the production run of 12 for Australia was completed. In addition, 45 Chinooks were refurbished and delivered to the U.S. Army. Work has been progressing on a Chinook modernization program which the Army plans to implement after June 1974.

The company was awarded a service life extension development program by the U.S. Navy to install new engines, new navigation system and improvements to increase survivability in the CH-46. Prototypes of this configuration (the CH-46E) will fly in 1975. Modernization of 292 CH-46s is planned.

Early in the year the company received a U.S. Army contract for the development of a prototype heavy-lift helicopter (HLH). The aircraft, capable of lifting 30 tons, will be flown for the first time in 1975. The prototype contract and its related Advanced Technology Component program have met all contract milestones and cost targets in 1973 and earned the company a substantial incentive award. Technical highlights include first flight of a purely electrical flight control system (called "fly-by-wire" because electrical controls replace conventional cables and rods) and fabrication of the world's largest helicopter rotor blade using all composite materials. The blade is 41½ feet long, 40 inches wide, and weighs 750 pounds.

The Utility Tactical Transport Aircraft System (UTTAS), a U.S. Army prototype competition program, is proceeding on schedule and within cost targets. The flyoff competition will take place in 1976. The U.S. Navy has indicated interest in a Light Airborne Multipurpose System (LAMPS) airframe based on UTTAS, and the company is actively pursuing this. The company also announced plans to build a commercial and foreign military version of the UTTAS, designated Model 179, for the world market.

Under a \$69 million contract, the company will build 230 standard light rail vehicles (streetcars)—150 for the Massachusetts Bay Transportation Authority of Boston and 80 for the San Francisco Municipal Railway Improvement Corporation. The two customers also have an option to purchase 37 addi-



■ H. N. Stuverude
President
Boeing Vertol Company

tional cars. The first car is due off the production line during 1974 for testing, with deliveries to start during 1975. Substantial interest is being evidenced by major North American cities seeking solutions for mass transit problems.

In December 1973 the company was apparent low bidder to provide 100 rapid rail vehicles for the Chicago Transit Authority's system. The contract, to be signed in 1974, contains an option for 100 additional vehicles.

The company is systems manager for the Urban Mass Transportation Administration's program to improve urban rapid transit systems. The program involves two State-of-the-Arts cars, incorporating the best available technology, and an Advanced Concept Train (ACT-1), incorporating engineering features not available in current mass transit vehicles. With the State-of-the-Art cars completing their test runs and scheduled to enter New York City subway service before mid-year, UMTA has authorized the company to proceed with ACT-1.

During the year the German-produced Boelkow BO-105 provided Vertol an opportunity to re-enter the commercial helicopter market after more than a decade of concentration on military helicopters. Vertol has North American sales rights for the light, twin-jet 5-place helicopter. Twelve BO-105Cs were delivered to major users of helicopters. Operators report excellent service and reliability. Sales of the BO-105 are expected to increase in 1974.



■ R. W. Tharrington
President
Boeing Computer Services, Inc.

BOEING COMPUTER SERVICES, INC.

Boeing Computer Services, Inc. (BCS) provides Boeing operating organizations with the extensive computing capacity and services required in the development and management of the programs described earlier in the report. BCS also serves a growing number of external customers using computing resources adaptable to a variety of their needs. In 1973 BCS met expanding needs in both areas and at year's end it was providing services to some 800 commercial customers. 1973 commercial revenues increased by 30 per cent over 1972.

Commercial sales growth is being recorded in governmental, industrial and financial markets. This is facilitated by an enlarged and improved communications network of 300,000 miles which links customers in 33 cities with computer centers in Chicago, Philadelphia, Seattle, Washington, D.C. and Wichita.

Several market areas warrant special note:

To meet a growing national need for computer training, instructional centers were added in Seattle and Detroit. All computer training for Ford Motor Company Detroit-area employees is provided by the Detroit center.

The BCS product line was enhanced by the introduction of a major new time-sharing service, BCS/MAINSTREAM. By year end 148 customers had purchased this new service.

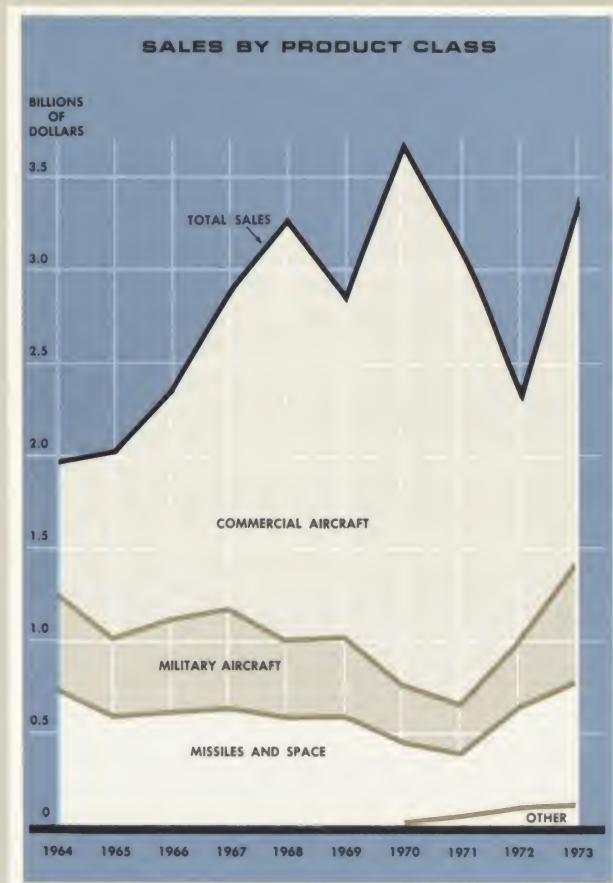
A new Great Lakes Data Center was established in Chicago to serve the midwest manufacturing industry. A five-year contract to provide substantially all computing services for the City Colleges of Chicago was one of the Center's first sales.



■ BCS is a major supplier of computer training. Its Seattle training center, one of five, offers the latest techniques and this campus environment.

■ BCS training is based on close student-instructor relationship and personalized instruction directly related to the student's work.





SALES (in millions)

	1973	%	1972	%
Commercial aircraft ..	\$1,871	56.1	\$1,386	58.5
Military aircraft	665	20.0	323	13.6
Missiles and space ...	688	20.6	571	24.1
Other	111	3.3	90	3.8
	<u>\$3,335</u>	<u>100.0</u>	<u>\$2,370</u>	<u>100.0</u>

Total sales in 1973 increased by almost a billion dollars over 1972 to approximately \$3.3 billion, second only to the record sales level of 1970.

Increased commercial jet transport deliveries accounted for approximately one-half of the increased sales volume. Military aircraft sales, which include derivatives of commercial aircraft, helicopters and aircraft modification and maintenance, were more than double the 1972 level.

Including military derivatives, eleven 707s, ninety-two 727s, twenty-three 737s and thirty 747s were delivered in 1973 for a total of 156. This compares with only 99 deliveries in 1972, which included six 707s, forty-one 727s, twenty-two 737s and thirty 747s.



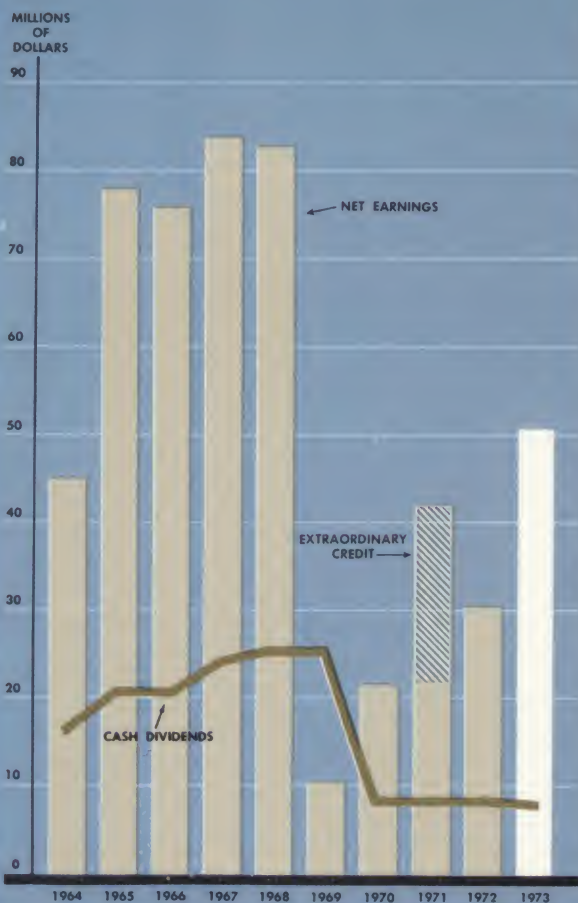
FINANCIAL REVIEW

The increase in missile and space sales is mainly attributable to higher levels on the Minuteman and SRAM programs which more than offset the continuing decline in space business.

Sales of non-traditional products and services increased again in 1973 as computer services, field operation and support services, surface transportation and other diversification areas continued to grow.

In 1974, sales are expected to approximate the 1973 level, with decreased missile and space sales being offset by higher aircraft sales. Including military derivatives, current schedules call for delivery of approximately twenty 707s, ninety 727s, fifty-five 737s and twenty-five 747s. The total of 190 compares with 156 deliveries in 1973.

NET EARNINGS AND CASH DIVIDENDS



EARNINGS

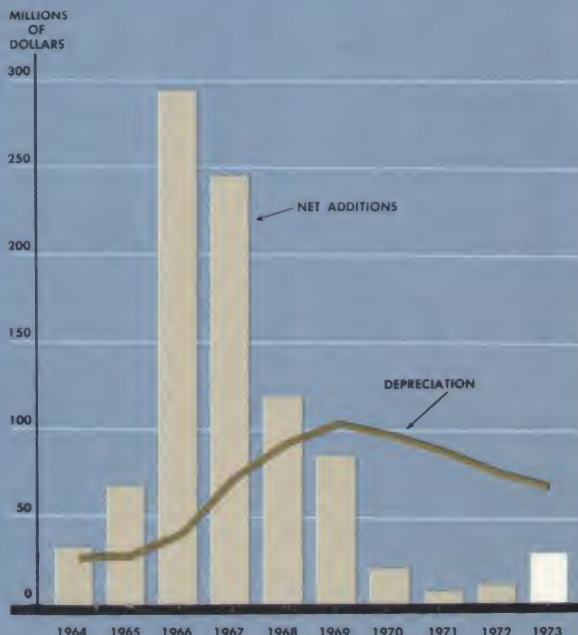
	1973	1972
Net earnings (in millions)	\$51.2	\$30.4
Per cent of sales	1.5%	1.3%
Earnings per share	\$ 2.38	\$ 1.40

Net earnings for 1973 increased approximately \$21 million from the prior year to \$51.2 million. Net earnings per average share outstanding showed a comparable increase to \$2.38 from \$1.40 in 1972.

Earnings before federal income taxes were \$57.8 million for 1973 compared with \$24.8 million in 1972. The provision for federal income taxes was reduced by \$11.5 million in 1973 and \$12.8 million in 1972 representing amortization of previously deferred investment tax credits. Income taxes were further reduced by \$9.7 million in 1973 and \$4.7 million in 1972 representing a portion of the taxes on earnings of the company's domestic international sales corporations.

The company continued its practice of charging against earnings on an incurred basis research, developmental, administrative and other general expenses applicable to government straight fixed-price contracts and commercial programs. Basic engineering and planning costs applicable to commercial jet transport operations are also charged directly to earnings.

PROPERTY, PLANT AND EQUIPMENT



FINANCIAL POSITION

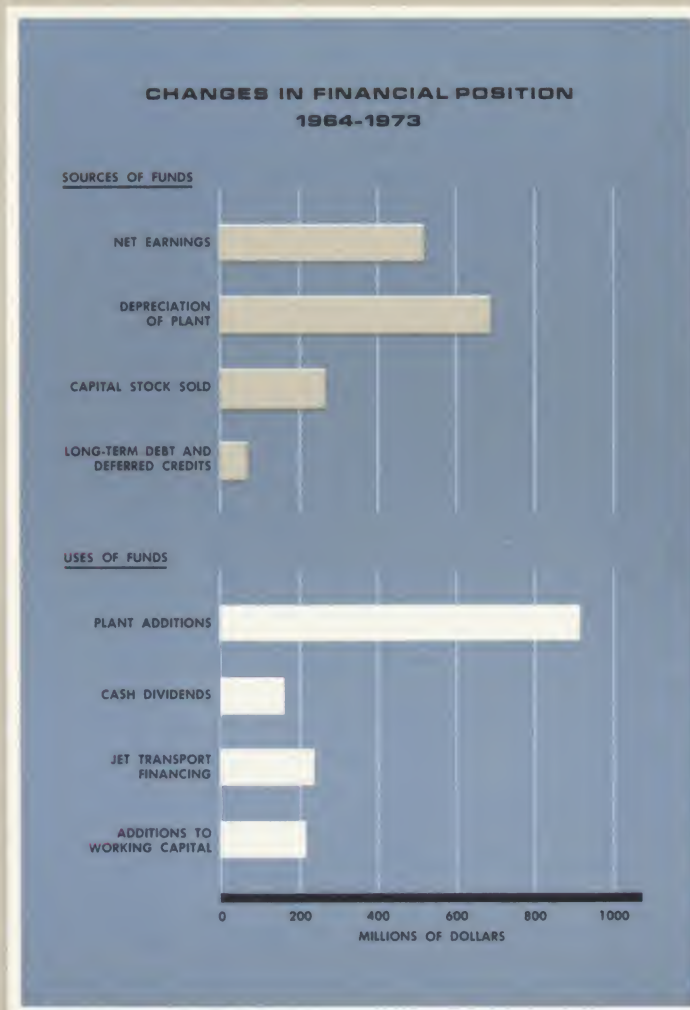
Stockholders' equity in the company totaled \$900 million at December 31, 1973, an increase of \$35 million from the previous year end. Working capital at the end of 1973 was \$464 million, down \$275 million during the year. The decrease is primarily attributable to lower inventory levels on jet transport programs, partially offset by the substantial reduction in current debt. Jet transport financing, which includes long-term notes receivable from customer airlines and the depreciated book value of leased aircraft, totaled \$261 million at the end of 1973, a decrease of \$16 million during the year. With allowance for depreciation and net plant retirements continuing to exceed facility additions, the company's net investment in plant and equipment decreased by \$33 million to \$349 million at year end.

During 1973 short-term bank loans were reduced from \$107 million to \$3 million, representing the elimination of all short-term debt except for that of the company's Canadian subsidiary. Long-term debt was \$275 million at the end of 1973, down \$370 million from prior year end. The long-term debt included \$179 million of debentures and notes and \$96 million representing debt of Boeing Financial Corporation relating to financing of commercial jet aircraft sales and leases. Current maturities included in the above amounts were \$110 million, \$96 million of which related to the Boeing Financial Corporation debt prepaid early in 1974 as discussed below.

The company's commercial bank credit arrangements are covered by two agreements.

Because of reduced borrowing requirements, the 1972 Bank Credit Agreement, under which the banks had made commitments to loan the company up to \$409 million, was reduced to \$300 million effective February 23, 1973 and was further reduced to \$200 million as of August 1, 1973. This agreement provides for the banks to continue the line of credit for a fifty-two week period, with the provision that unless either the company or the banks give notice otherwise, such commitment will be extended on a weekly basis for an additional fifty-two week period. The agreement further provides that if such extensions continue beyond January 1, 1976, the commitments will thereafter be reduced by 8½% per quarter with a final termination date of December 31, 1978. There were no borrowings under this agreement at year end.

The remaining bank credit agreement covers borrowings by Boeing Financial Corporation, a wholly-owned subsidiary established to assist in financing commercial aircraft. The first part of the agreement at year end was a participation under which the company borrowed against the cash flows of certain aircraft leases. As mentioned previously, the \$96 million of cash flows which were outstanding under the participation agreement at that time were repurchased on January 11, 1974 and the participation was terminated. As of February 23, 1973 the credit provided for in the second part of the agreement was reduced to \$225 million from the \$260 million level which had been established in September 1972, and was further reduced to \$175 million effective May 1, 1973. The loans under the second part of the agreement are governed by a borrowing base which is dependent



on the assets owned by Boeing Financial Corporation. There were no borrowings under this part of the agreement at year end.

BACKLOG (in millions)

	1973	1972
Commercial aircraft	\$1,905	\$1,753
Military aircraft	532	444
Missiles and space	565	596
Other	150	38
	<u>\$3,152</u>	<u>\$2,831</u>

Total unfilled order backlog at the end of 1973 was \$321 million larger than at the previous year end.

Government order backlog is limited to amounts obligated to contracts by the procuring agencies. If recognition were given to unfunded amounts under contract at December 31, 1973, unfilled orders would be increased by about \$800 million.

TEN YEAR COMPARATIVE FINANCIAL DATA

Dollars (other than per share amounts) in millions

SALES, EARNINGS AND DIVIDENDS

	SALES	EARNINGS				CASH DIVI- DENDS	PER SHARE DATA			
		BEFORE EXTRA- ORDINARY ITEMS	% OF SALES	EXTRA- ORDINARY ITEMS	NET EARNINGS		EARNINGS BEFORE EXTRA- ORDINARY ITEMS	EXTRA- ORDINARY ITEMS	NET EARNINGS	CASH DIVIDENDS
1973	\$3,335	\$51.2	1.5	\$ —	\$51.2	\$ 8.6	\$2.38	\$ —	\$2.38	\$.40
1972	2,370	30.4	1.3	—	30.4	8.7	1.40	—	1.40	.40
1971	3,040	22.4	0.7	19.8*	42.2	8.7	1.04	.91	1.95	.40
1970	3,677	22.1	0.6	—	22.1	8.7	1.02	—	1.02	.40
1969	2,835	10.2	0.4	—	10.2	26.0	.47	—	.47	1.20
1968	3,274	83.0	2.5	—	83.0	26.0	3.84	—	3.84	1.20
1967	2,880	83.9	2.9	—	83.9	24.6	4.10	—	4.10	1.20
1966	2,357	76.1	3.2	—	76.1	20.2	4.13	—	4.13	1.10
1965	2,023	78.3	3.9	—	78.3	20.3	4.84	—	4.84	1.25
1964	1,969	45.3	2.3	—	45.3	16.0	2.82	—	2.82	1.00

FINANCIAL POSITION DATA

	WORKING CAPITAL	LONG- TERM NOTES	LEASED AIRCRAFT	PLANT AND EQUIPMENT		LONG-TERM DEBT AND DEFERRED CREDITS	STOCKHOLDERS' EQUITY	
				AT COST	NET		AMOUNT	PER SHARE
1973	\$464	\$243	\$ 18	\$1,068	\$349	\$190	\$900	\$42.27
1972	739	251	26	1,059	382	538	865	39.87
1971	695	248	36	1,077	449	589	843	38.88
1970	657	259	57	1,104	532	700	809	37.33
1969	610	228	71	1,106	609	726	796	36.71
1968	467	208	90	1,032	628	587	810	37.43
1967	358	249	114	915	601	574	752	34.80
1966	434	124	86	672	426	513	564	28.91
1965	266	20	14	380	172	104	372	22.70
1964	255	1	29	315	130	113	306	19.06

All per share data for prior years adjusted to reflect two-for-one stock split in 1966.
Earnings per share based on the average number of shares outstanding during each year.

*Recovery of cost share resulting from SST cancellation, net of Federal income taxes.

PRINCIPAL SOURCES AND USES OF FUNDS

SOURCES				USES				
NET EARNINGS	DEPRECIATION OF PLANT	CAPITAL STOCK SOLD	LONG-TERM DEBT AND DEFERRED ITEMS	CASH DIVIDENDS	NET ADDITIONS TO PLANT	INCREASED AIRCRAFT FINANCING	INCREASED WORKING CAPITAL	
\$51.2	\$ 66.0	\$ (7.3)	\$(357.8)	\$ 8.6	\$ 33.1	\$ (16.1)	\$(274.7)	1973
30.4	75.9	0.1	(51.2)	8.7	9.4	(6.7)	43.7	1972
42.2	89.6	—	(110.8)	8.7	6.4	(32.3)	38.2	1971
22.1	98.4	—	(26.6)	8.7	21.3	17.7	46.2	1970
10.2	105.3	1.4	139.7	26.0	86.9	0.6	143.5	1969
83.0	93.8	1.8	12.2	26.0	120.2	(65.2)	108.7	1968
83.9	72.3	128.6	62.3	24.6	246.5	153.0	(76.0)	1967
76.1	40.2	135.9	408.4	20.2	294.6	176.2	167.5	1966
78.3	25.5	7.3	(8.7)	20.3	67.8	3.7	11.3	1965
45.3	24.7	0.8	(4.1)	16.0	33.6	4.5	9.6	1964

GENERAL INFORMATION

SHARES OUTSTANDING	BACKLOG	FLOOR AREA (In Million Square Feet)			EMPLOYEES		
		BOEING OWNED	LEASED	GOV'T OWNED	AVERAGE NUMBER	SALARIES AND WAGES	
21,296,488	\$3,152	23.7	1.5	5.9	68,200	\$ 956	1973
21,688,888	2,831	24.2	1.6	7.4	58,600	784	1972
21,683,102	2,201	24.6	1.6	7.9	56,300	711	1971
21,683,102	3,033	25.0	2.3	8.0	79,100	943	1970
21,683,102	5,183	25.1	3.8	10.4	120,500	1,322	1969
21,647,363	5,176	24.7	4.1	10.7	142,400	1,411	1968
21,597,356	5,893	22.9	4.3	10.7	142,700	1,305	1967
19,496,519	5,283	19.9	3.6	10.6	128,500	1,148	1966
16,374,280	3,148	12.5	2.5	11.4	93,400	813	1965
16,073,972	1,844	11.3	2.1	11.2	90,900	758	1964

CONSOLIDATED BALANCE SHEET**ASSETS**

December 31,

	<u>1973</u>	<u>1972</u>
CURRENT ASSETS:		
Cash and short-term investments	\$ 51,520,000	\$ 50,952,000
Amounts receivable under United States Government contracts	117,002,000	127,733,000
Other accounts and notes receivable	125,565,000	144,523,000
Inventories — Note 2	755,231,000	1,133,347,000
Prepaid expenses	7,490,000	6,821,000
Total Current Assets	1,056,808,000	1,463,376,000
 DEFERRED TAXES ON INCOME — Note 3	 10,000,000	
 LONG-TERM NOTES RECEIVABLE, 5% to 12%	 242,803,000	251,273,000
 LEASED AIRCRAFT, at cost, less accumulated depreciation:		
1973, \$98,388,000; 1972, \$91,021,000	18,326,000	25,962,000
 OTHER ASSETS AND DEFERRED CHARGES	 5,638,000	4,381,000
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	25,440,000	26,115,000
Buildings	509,466,000	508,372,000
Machinery and equipment	525,729,000	521,638,000
Construction in progress	6,876,000	3,120,000
Less accumulated depreciation and amortization	(718,027,000)	(676,841,000)
	<u>349,484,000</u>	<u>382,404,000</u>
	<u>\$1,683,059,000</u>	<u>\$2,127,396,000</u>

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES:		
Notes payable to banks — Note 4	\$ 3,400,000	\$ 107,050,000
Accounts payable	315,115,000	325,268,000
Salaries and wages, taxes and other accrued expenses	142,638,000	148,804,000
Federal taxes on income — Note 3	22,109,000	1,230,000
Current portion of long-term debt	109,726,000	142,487,000
Total Current Liabilities	<u>592,988,000</u>	<u>724,839,000</u>
 DEFERRED TAXES ON INCOME — Note 3		2,000,000
 DEFERRED INVESTMENT CREDIT — Note 3	25,100,000	33,100,000
 LONG-TERM DEBT , less current portion — Note 4	164,849,000	502,638,000
 CONTINGENT LIABILITIES — Note 7		
 STOCKHOLDERS' EQUITY:		
Capital stock, par value \$5 a share— Authorized, 30,000,000 shares Issued at stated value: 1973 and 1972, 21,688,888 shares— Note 6	447,158,000	447,158,000
Retained earnings — Note 4	460,254,000	417,661,000
	<u>907,412,000</u>	<u>864,819,000</u>
Less 392,400 treasury shares, at cost	(7,290,000)	
	<u>900,122,000</u>	<u>864,819,000</u>
	<u><u>\$1,683,059,000</u></u>	<u><u>\$2,127,396,000</u></u>

CONSOLIDATED STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

	<i>Year ended December 31,</i>	
	<u>1973</u>	<u>1972</u>
Sales	\$3,335,189,000	\$2,369,580,000
Other income	43,778,000	39,467,000
	<u>3,378,967,000</u>	<u>2,409,047,000</u>
Costs and expenses — Note 5	3,281,991,000	2,327,813,000
Interest and debt expense	39,161,000	56,429,000
	<u>3,321,152,000</u>	<u>2,384,242,000</u>
EARNINGS BEFORE TAXES	57,815,000	24,805,000
Federal taxes on income (tax credits) — Note 3	6,600,000	(5,600,000)
NET EARNINGS	<u>51,215,000</u>	<u>30,405,000</u>
Retained earnings, January 1	417,661,000	395,930,000
Cash dividends paid — \$.40 per share	(8,622,000)	(8,674,000)
Retained earnings, December 31	<u>\$ 460,254,000</u>	<u>\$ 417,661,000</u>
NET EARNINGS PER SHARE	<u>\$2.38</u>	<u>\$1.40</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31,

SOURCES OF FUNDS:

From operations —

Net earnings	\$ 51,215,000	\$ 30,405,000
Depreciation:		
Plant and equipment	65,994,000	75,920,000
Leased aircraft	7,521,000	9,091,000
Less amortization of investment credit	(11,500,000)	(12,800,000)
Total from operations	113,230,000	102,616,000

Decrease (increase) in aircraft financing—

Long-term notes receivable	8,470,000	(3,458,000)
Leased aircraft	115,000	1,071,000
	121,815,000	100,229,000

USES OF FUNDS:

Decreases in long-term debt	337,789,000	24,920,000
Additions to plant and equipment, net	33,074,000	9,380,000
Cash dividends	8,622,000	8,674,000
Acquisition of treasury stock	7,290,000	
Decrease in deferred items	8,500,000	13,500,000
Other	1,257,000	9,000
	396,532,000	56,483,000

**NET INCREASE (DECREASE)
IN WORKING CAPITAL**

	<u>\$(274,717,000)</u>	<u>\$ 43,746,000</u>
--	------------------------	----------------------

**CHANGES IN COMPONENTS
OF WORKING CAPITAL:**

Cash	\$ 568,000	\$ (37,309,000)
Receivables	(29,689,000)	9,959,000
Inventories	(378,116,000)	(236,973,000)
Prepaid expenses	669,000	412,000
Notes payable to banks	103,650,000	144,645,000
Accounts payable	10,153,000	201,560,000
Salaries and wages, taxes and other accrued expenses	(14,713,000)	(19,858,000)
Current portion of long-term debt	32,761,000	(18,690,000)

**NET INCREASE (DECREASE)
IN WORKING CAPITAL**

	<u>\$(274,717,000)</u>	<u>\$ 43,746,000</u>
--	------------------------	----------------------

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1973 and 1972

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of all significant subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

INVENTORIES, COST OF SALES AND RESEARCH AND DEVELOPMENTAL EXPENSES. Work in process on Government fixed-price incentive type contracts is stated at the total of direct engineering, developmental, production and tooling costs and overhead applicable thereto, less the estimated average cost of deliveries based on the estimated total cost of the contracts. Work in process on straight fixed-price contracts and commercial programs is stated in the same manner, except that applicable research, developmental, administrative and other general expenses are charged directly to earnings as incurred. Basic engineering and planning costs applicable to commercial jet transport programs are also charged directly to earnings. The average cost of deliveries on commercial programs is based upon the total estimated program costs determined in the above manner. To the extent such costs are expected to exceed the total estimated program sales price, charges are made to current earnings in order to reduce work in process to estimated realizable value.

For mature programs, estimated program costs include all units committed to production. With respect to the 747 program, both incurred and estimated future production and tooling costs for aircraft delivery costing purposes are being averaged over what management believes to be a conservative market projection of 400 aircraft. As of December 31, 1973, announced 747 orders were 258, of which 225 had been delivered.

In accordance with industry practice, substantial amounts relating to programs having long production cycles are included in work in process, a portion of which is not expected to be realized within one year.

Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

REVENUE RECOGNITION. Sales under commercial programs and Government fixed-price and fixed-price incentive contracts are recorded as deliveries are made. Sales under cost-reimbursement type contracts are recorded as costs are incurred. Certain Government contracts contain cost or performance incentives which provide for increased or decreased fees or profits based upon actual performance against established targets or

other criteria. Incentives based upon cost performance are recorded currently. Other incentives are included in sales when awards or penalties are established, or when amounts can reasonably be determined.

Aircraft leases are accounted for under the operating method, by which lease payments are taken into income as accrued.

DEPRECIATION AND AMORTIZATION. Property, plant and equipment and leased aircraft are recorded at cost and depreciated or amortized over useful lives based principally on accelerated methods.

RETIREMENT PLANS. The Company has several retirement plans covering substantially all employees. The Company's policy is to accrue current pension costs. Unfunded liability arising from a retroactive increase in retirement benefits adopted in 1972 is being amortized over 25 years.

FEDERAL INCOME TAXES. The provision for Federal income taxes is based on all elements of income and expense included in the statement of net earnings, regardless of the period when such items are reported for tax purposes, except that no provision is made for that portion of the earnings of the Company's Domestic International Sales Corporations for which management believes tax payments will be indefinitely deferred. The effects of timing differences between the recording of revenues and expenses for earnings statement purposes and Federal income tax reporting are reflected as changes in deferred taxes on income. Investment tax credits have been deferred and are being recorded as reductions in the provision for income taxes over the lives of the applicable assets.

Note 2—INVENTORIES:

Inventories at December 31 include the following—

	1973	1972
	(in thousands)	
Work in process	\$1,326,552	\$1,690,296
Commercial spare parts and general stock	73,584	63,086
	1,400,136	1,753,382
Less advances and progress payments	(644,905)	(620,035)
	<u>\$ 755,231</u>	<u>\$1,133,347</u>

Note 3 — FEDERAL INCOME TAXES:

The provision for Federal taxes on income (tax credits) is composed of—

	<u>1973</u>	<u>1972</u>
	<i>(in thousands)</i>	
Taxes currently payable	\$30,100	\$10,000
Deferred tax expense	(12,000)	(2,800)
Amortization of investment tax credit	(11,500)	(12,800)
	<u>\$ 6,600</u>	<u>\$(5,600)</u>

The provision for Federal taxes on income was reduced by \$9,700,000 (\$.45 a share) in 1973 and \$4,700,000 (\$.22 a share) in 1972 representing taxes on earnings of the Company's Domestic International Sales Corporation (DISC) subsidiaries, since management has declared its intention to indefinitely postpone payment of such taxes through the reinvestment of undistributed earnings in export related assets. Cumulative undistributed DISC earnings for which Federal income taxes have not been provided amount to approximately \$30,000,000.

Deferred tax expense results from—

	<u>1973</u>	<u>1972</u>
	<i>(in thousands)</i>	
Prepaid lease income	\$ 6,300	\$ 4,800
DISC earnings not indefinitely postponed	4,700	
Accelerated depreciation on leased aircraft	(1,700)	(4,500)
Installment sales	(7,100)	(7,000)
Accrued commercial and Government program costs not currently deductible . . .	(15,400)	(6,600)
Reduction of investment tax credit carryover offset against deferred taxes		10,600
Other	1,200	(100)
	<u>\$(12,000)</u>	<u>\$(2,800)</u>

Income taxes have been settled with the Internal Revenue Service for all years through 1970. Adequate provision for income taxes is believed to have been made for the years 1971 through 1973.

Note 4 — NOTES PAYABLE AND LONG-TERM DEBT:

Short-term notes of \$3,400,000 at December 31, 1973, bearing interest at $\frac{1}{4}$ % above the Canadian prime commercial bank rate, are payable by the Company's Canadian subsidiary under a bank line of credit of \$4,000,000. No borrowings were outstanding at December 31, 1973 under an agreement with a group of banks providing credit lines aggregating \$200,000,000. Borrowings under this agreement bear interest at $\frac{1}{4}$ % above the prime commercial bank rate. Commitment fees of $\frac{1}{2}$ % are charged for the unused credit lines.

Long-term debt consists of the following—

	<u>December 31</u>	
	<u>1973</u>	<u>1972</u>
	<i>(in thousands)</i>	
Term Loan and Credit Agreement	\$ 95,922	\$346,748
6 $\frac{3}{8}$ % notes payable	142,750	153,500
5 % notes payable	28,000	30,750
5 % Sinking Fund Debentures	7,264	12,964
Revolving Credit notes		99,275
Other notes	639	1,888
Less current maturities	<u>(109,726)</u>	<u>(142,487)</u>
	<u>\$164,849</u>	<u>\$502,638</u>

Boeing Financial Corporation, a wholly-owned subsidiary, is a party to a Term Loan and Credit Agreement with a group of banks. Subsequent to year end the entire December 31, 1973 outstanding balance of \$95,922,000 was prepaid without penalty. \$175,000,000 of financing remains available under a revolving credit arrangement governed by a borrowing base. The loans bear interest at 120 % of the prime commercial bank rate.

The 6 $\frac{3}{8}$ % notes, maturing in 1986, are payable to a group of institutional lenders. Required annual sinking fund payments are \$10,750,000.

The 5 % notes, maturing in 1983, are payable to an insurance company in annual installments of \$2,750,000.

Sinking fund requirements under the 5 % Sinking Fund Debentures, due August 1, 1978, are \$2,700,000 annually. Debentures aggregating \$3,036,000 have been reacquired and may be applied against future sinking fund requirements.

The other notes bear interest at 6 % to 8 % and are payable in installments over various periods through 1978.

The Company has complied with all of the restrictive covenants contained in the various debt agreements. Under agreements effective February 15, 1973, retained earnings totaling \$53,774,000 are free from dividend restrictions.

Aggregate maturities and sinking fund requirements on long-term debt for each of the next five years are as follows—

	<i>(in thousands)</i>
1974 (Including prepayment discussed above)	\$109,726
1975	15,967
1976	16,303
1977	15,803
1978	13,526

Note 5 — RETIREMENT PLANS:

Costs and expenses for 1973 and 1972 include \$44,558,000 and \$41,046,000 representing provisions for retirement plan costs. At December 31, 1973, actuarially determined vested benefits exceeded retirement plan assets by approximately \$93,000,000.

Note 6 — CAPITAL STOCK:

Changes in capital stock were as follows—

	(in thousands)	
	Shares	Amount
Balance at January 1, 1972	21,683,102	\$447,040
Shares sold to officers and employees under stock option plan	5,786	118
Balance at December 31, 1972 and 1973	<u>21,688,888</u>	<u>\$447,158</u>

During 1973, 392,400 shares of capital stock were reacquired and are being held in the Company's treasury.

At December 31, 1973, options for 337,000 shares of the Company's stock, at prices ranging from \$14.50 to \$23.00 were outstanding, of which 201,050 shares were

exercisable. During 1973, options for 2,150 shares were granted and options for 48,500 shares were canceled. Additional options for 310,250 shares may be granted under the present stock option plan.

Note 7 — CONTINGENT LIABILITIES:

Substantially all of the Company's contracts with the Government are subject to renegotiation under the Renegotiation Act of 1951. Renegotiation Board proceedings for all years through 1970 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1971 and subsequent years. In view of this uncertainty, and the belief of the Company that no excessive profits were realized, no provision for renegotiation refund has been made for these years.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

ACCOUNTANTS' REPORT**TOUCHE ROSS & CO.**

THE FINANCIAL CENTER
SEATTLE, WASHINGTON 98161

February 25, 1974

Board of Directors
The Boeing Company
Seattle, Washington

We have examined the consolidated balance sheet of The Boeing Company and subsidiaries as of December 31, 1973 and 1972, and the related statements of net earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Boeing Company and subsidiaries at December 31, 1973 and 1972, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, in our opinion, the action of the Board of Directors on February 25, 1974, in setting aside the sum of \$2,500,000 for the year 1973 under the Incentive Compensation Plan for officers and employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche Ross & Co.

Certified Public Accountants

ORGANIZATION and MANAGEMENT

THE **BOEING** COMPANY Corporate Offices (Seattle, Washington)

ELECTED OFFICERS and DIRECTORS

T. A. WILSON (Director)
*Chairman of the Board
Chief Executive Officer*

M. T. STAMPER (Director)
President

H. W. HAYNES (Director)
Senior Vice President—Finance

J. E. PRINCE (Director)
*Senior Vice President
Secretary*

O. C. BOILEAU
Vice President

E. H. BOULLIOUN
Vice President

H. N. STUVERUDE
Vice President

R. W. THARRINGTON
Vice President

V. F. KNUTZEN
Controller

J. B. L. PIERCE
Treasurer

WILLIAM M. BATTEN (Director)*
*Chairman of the Board
J. C. Penney Company, Inc.*

CRAWFORD H. GREENEWALT (Director)
E. I. duPont de Nemour & Co.

CHARLES M. PIGOTT (Director)*
*President
PACCAR INC*

WILLIAM G. REED (Director)
*Managing Partner
Simpson Reed & Co.*

DAVID E. SKINNER (Director)
*President
Skinner Corporation*

EDWARD C. WELLS (Director)
Boeing Company Consultant

GEORGE H. WEYERHAEUSER (Director)*
*President
Weyerhaeuser Company*

THOMAS R. WILCOX (Director)
*President
Crocker National Corporation*

*Audit Committee

CORPORATE HEADQUARTERS

T. A. WILSON
*Chairman of the Board
Chief Executive Officer*

M. T. STAMPER
President

H. W. HAYNES
Senior Vice President—Finance

J. E. PRINCE
*Senior Vice President
Secretary*

R. E. BATEMAN
Vice President—Washington, D.C. Office

H. K. HEBELER
Vice President—Corporate Business Development

V. F. KNUTZEN
Controller

S. M. LITTLE
Vice President—Industrial and Public Relations

H. W. NEFFNER
Vice President—Contracts

J. B. L. PIERCE
Treasurer

G. S. SCHAIRER
Vice President—Research

B. M. WHEAT
Vice President—Operations Staff

DIRECTORS EMERITI:

WILLIAM M. ALLEN (*Chairman Emeritus*) • WILLIS L. CAMPBELL • LOWELL P. MICKELWAIT

BOEING AEROSPACE COMPANY
Kent, Washington

- O. C. BOILEAU
President
- D. A. COLE
Vice President
Manager—Naval Systems Division
- D. E. GRAVES
Vice President
Manager—Aeronautical and Information Systems Division
- W. T. HAMILTON
Vice President
General Manager—Research and Engineering Division
- H. E. HURST
Vice President, Operations—YC-14 Program
Aeronautical and Information Systems Division
- J. C. MAXWELL
Vice President
General Manager—Operations and Planning
- M. L. PENNELL
Vice President
Manager—Exploratory Development,
Aeronautical and Information Systems Division
- B. T. PLYMALE
Vice President
General Manager—Strategic Systems Group
- R. W. TAYLOR
Vice President
General Manager—Military Systems Group

BOEING COMMERCIAL AIRPLANE CO.
Renton, Washington

- E. H. BOULLIOUN
President
- W. M. MAULDEN
Executive Vice President
- W. W. BUCKLEY
Vice President
General Manager—707/727/737 Division
- W. L. HAMILTON
Vice President—Marketing
- K. F. HOLTBY
Vice President
General Manager—7X7 Program
- G. D. NIBLE
Vice President—Customer Support
- E. A. OCHEL
Vice President
General Manager—Fabrication and Services Division
- J. E. STEINER
Vice President—Program Operations
- J. F. SUTTER
Vice President
General Manager—747 Division
- R. W. WELCH
Vice President—Finance and Contracts
- C. F. WILDE
Vice President—Sales and Marketing
- H. W. WITHINGTON
Vice President—Engineering

BOEING VERTOL COMPANY
Philadelphia, Pennsylvania

- H. N. STUVERUDE
President
- C. W. ELLIS
Vice President
Assistant General Manager

WICHITA DIVISION
Wichita, Kansas

- O. H. SMITH
Vice President
General Manager

SEATTLE SERVICES DIVISION
Seattle, Washington

- B. W. LAMB
General Manager

BOEING COMPUTER SERVICES, INC.
(Subsidiary)
Dover, New Jersey and Kent, Washington

- T. A. WILSON
Chairman of the Board
- R. W. THARRINGTON
President
Chief Executive Officer
- J. H. GOLDIE
Executive Vice President
- B. HARTY
Vice President
Secretary
- D. W. JUDY
Vice President—Systems Development
- R. E. PLATT
Vice President—Marketing
- A. W. SAUERBREY
Vice President—Finance
Treasurer
- M. E. STONE
Vice President—Operations



■ AWACS aircraft is topped by radome housing surveillance radar antenna

GENERAL COUNSEL PERKINS, COIE, STONE, OLSEN & WILLIAMS

GENERAL AUDITORS TOUCHE ROSS & CO.

TRANSFER AGENT FIRST NATIONAL CITY BANK, NEW YORK

REGISTRAR BANKERS TRUST COMPANY, NEW YORK

THE **BOEING** COMPANY

GENERAL OFFICES — 7755 EAST MARGINAL WAY SOUTH — SEATTLE, WASHINGTON 98124

